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Prepare now for likely effects of low oil prices

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Longview News-Journal

Anyone who's been around Texas awhile understands that the price of oil rises and falls. That's the norm with any commodity.

Oil isn't just any commodity, of course. The prices of corn or wheat are important, but don't begin to compare with how the U.S. economy lurches to and fro along with the price of oil.

But while Texans like to believe we've seen it all before, chances are we haven't seen anything quite like the current swoon in the price of oil, and the likelihood is that the market isn't going to be "straight" anytime soon.

A report by the Federal Reserve Bank of Dallas suggests oil prices will stay low through 2015 and that supply will continue to outstrip global demand.

One of the differences in this oil price drop and others is that it is driven in large part by production in the United States, particularly in Texas and the Eagle Ford shale, which accounts for a whopping 40 percent of all oil production in our state.

And, the Fed report says, though prices have been falling for six months, production has not slowed. In fact, more oil was produced per day this December than during the same month a year ago.

But at some point — we don't know when and the Fed isn't predicting, either — the supply is going to grow so large or the price is going to drop so low that companies will slow or stop production. When that happens, the inescapable layoffs will follow, which are going to have an obvious effect on us in East Texas.

The situation could be alleviated to some degree if oil producers were given the ability to export crude oil, which has been largely banned since the first oil crisis in the 1970s. This is a controversial subject and any lifting of the ban must come with controls but it might help stabilize the market. We hope Congress gives it thoughtful consideration.

As the situation unfolds, our area should not just watch and wait. Much work already has been done to diversify our economy, but energy is still its main driver, so we should make it a priority to further broaden the range of industries across our area.

We also should ready retraining programs for those who face layoffs from the oilfield.

The Legislature also must be aware the oil-driven Texas miracle is sputtering. That means the state government that relies so heavily on taxing the oil industry will be working with less revenue for a few years. Given that transportation already is under-funded and with the reality they'll have to find more money for education, lawmakers must realize now isn't the time for politically motivated tax cuts.

There's a bright side, even for state government. Every business and public entity buys gasoline and travel, both of which are less expensive because of depressed oil prices. Consumers will have more money to spend on goods because they're paying less for fuel. In theory, this should help state and local sales tax collections. Other industries — including manufacturing and chemical production — also benefit from low oil prices.

Amid so much uncertainty in this situation, we are confident of this: The Texas economy of today is much different than the one that took us through the last major collapse in oil prices.

Today's Texas economy is more diverse, with other sectors producing more new jobs in recent years than energy. The latest boom has increased our population and further broadened our industry base.

We hope Texas and its new economy are ready to pass this test.

—Longview News-Journal